

Item #8 – Justification for High Overhead/Fund-Raising Expenses and Plan to Reduce Percentage

If overhead and fund-raising expenses are over 25.04 percent, organization must submit the following two items:

1. Detailed justification that percentage is reasonable under the circumstances **and**
2. A plan to reduce expenses to 25 percent or less

Failure to submit an acceptable justification and plan for reducing expenses may result in a denial.

SAMPLE STATEMENT:

The organization's administrative and fund-raising costs for the year total 34% for the first time ever in our history. This is an unfortunate mistake in the functional allocations for the organization. There was a complete change over in staff between the end of the fiscal year and when the audit was completed two months later. Because we could not provide the auditors with information related to functional allocation of staff salaries and staff time, the auditors allocated virtually ALL staff time to administration and fundraising.

The office was run by a staff of four—two full-time and two-part time people. The two part-time people (one in fundraising and one in services) were hired only mid-way through the year. Prior to that, all service functions and public education functions were handled by the organization president. Unfortunately, because we had this complete turnover in staff prior to the audit, when it came time to functionally allocate each employees' time, the auditors allocated only the half year, part-time chapter services employee's time to chapter services. Each employee's time was allocated to administrative or fundraising. Since salaries are usually our largest single expense, this significantly (and inaccurately) changed our total administrative cost percentages.

To reduce the percentage in the future, our personnel, with the help of our auditor, are currently reviewing and revising our expense allocation methods to allow for more accurate functional allocations.